

Economic & Revenue Outlook

Presented to
House Ways and Means Committee

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October 8, 2012
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The updated economic forecast is very similar to the June forecast; as a result the revenue forecast is largely unchanged
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about Europe, China, and the “fiscal cliff”
- Within WA, revenue growth has been positive for motor vehicles and most retail sectors but has been declining in the manufacturing sector
- Revenues since the June forecast are \$20.8 million (0.6%) above expectations
- This forecast increases expected GF–S revenues by \$29 million in the current biennium and \$23 million in the 2013-15 biennium

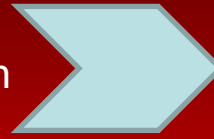


The state's risk matrix shows most risks from outside state

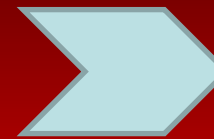


Washington's Economy

EUROPE
Sovereign
Debt

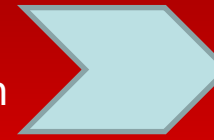


EUROPE
Banks

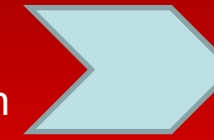


U.S.
Banks

European
Recession



Asia
Slowdown



U.S.
Trade

- Fiscal Cliff

- Election cycle
- Iran's effect on oil

Housing and construction, Exports

**State of
Washington**

Pluses
**Aerospace
Software**

Minuses
**State & Local
Government**

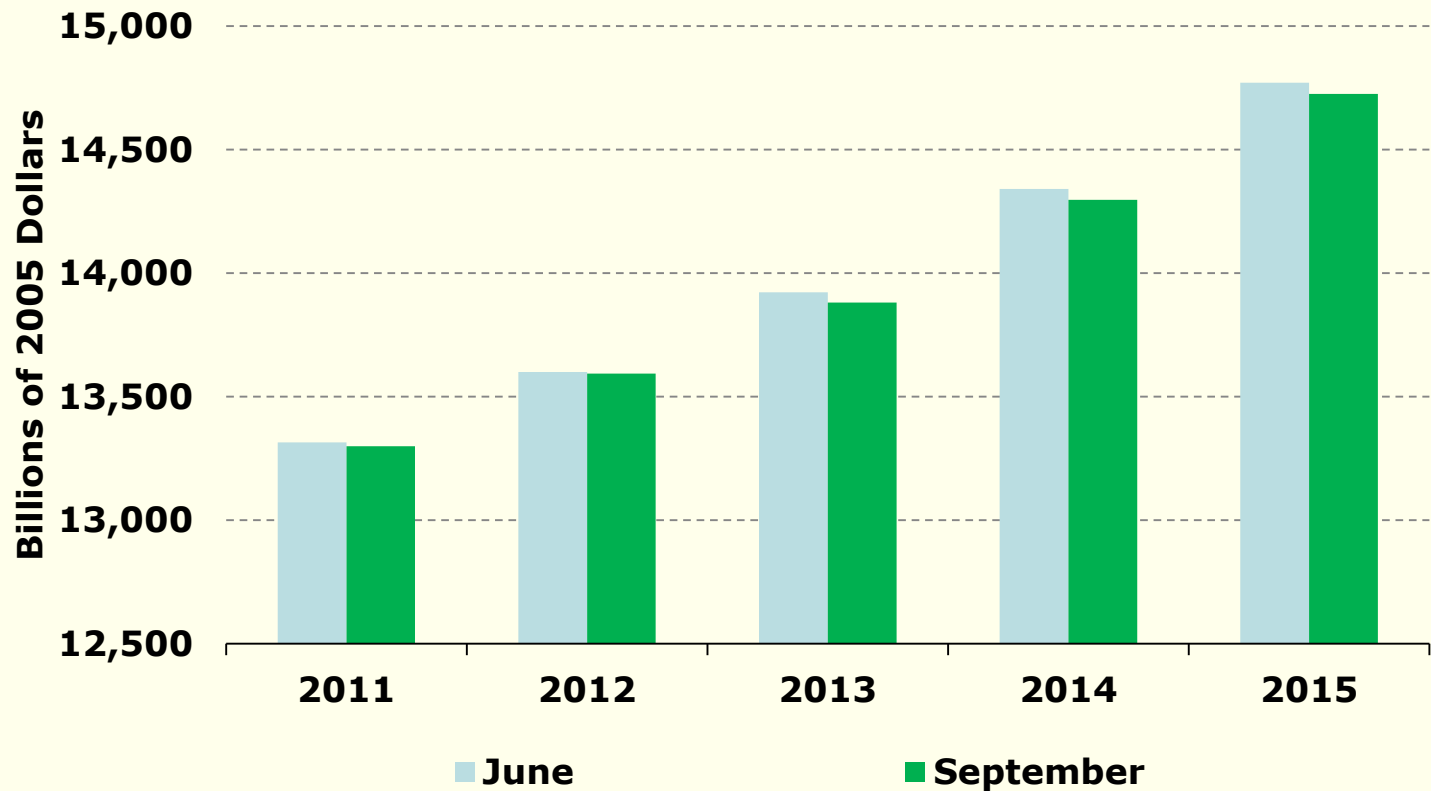
Source: ERFC

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U.S. GDP Forecast Slightly Lower

Blue Chip Consensus Real GDP forecast



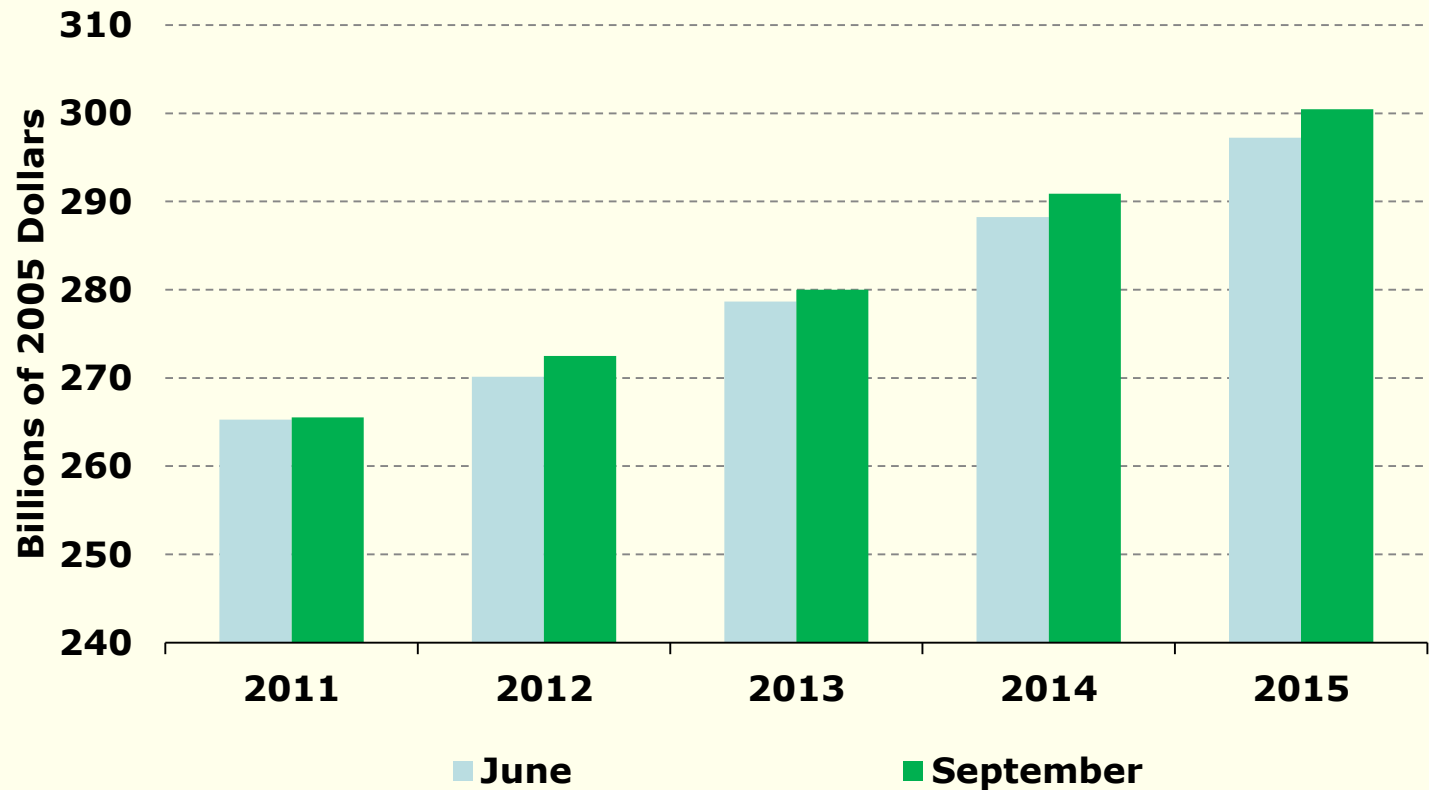
Source: BEA, Blue Chip Economic Indicators September 2012; historical data through 2011

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WA Personal Income Forecast Slightly Higher

Washington Real Personal Income



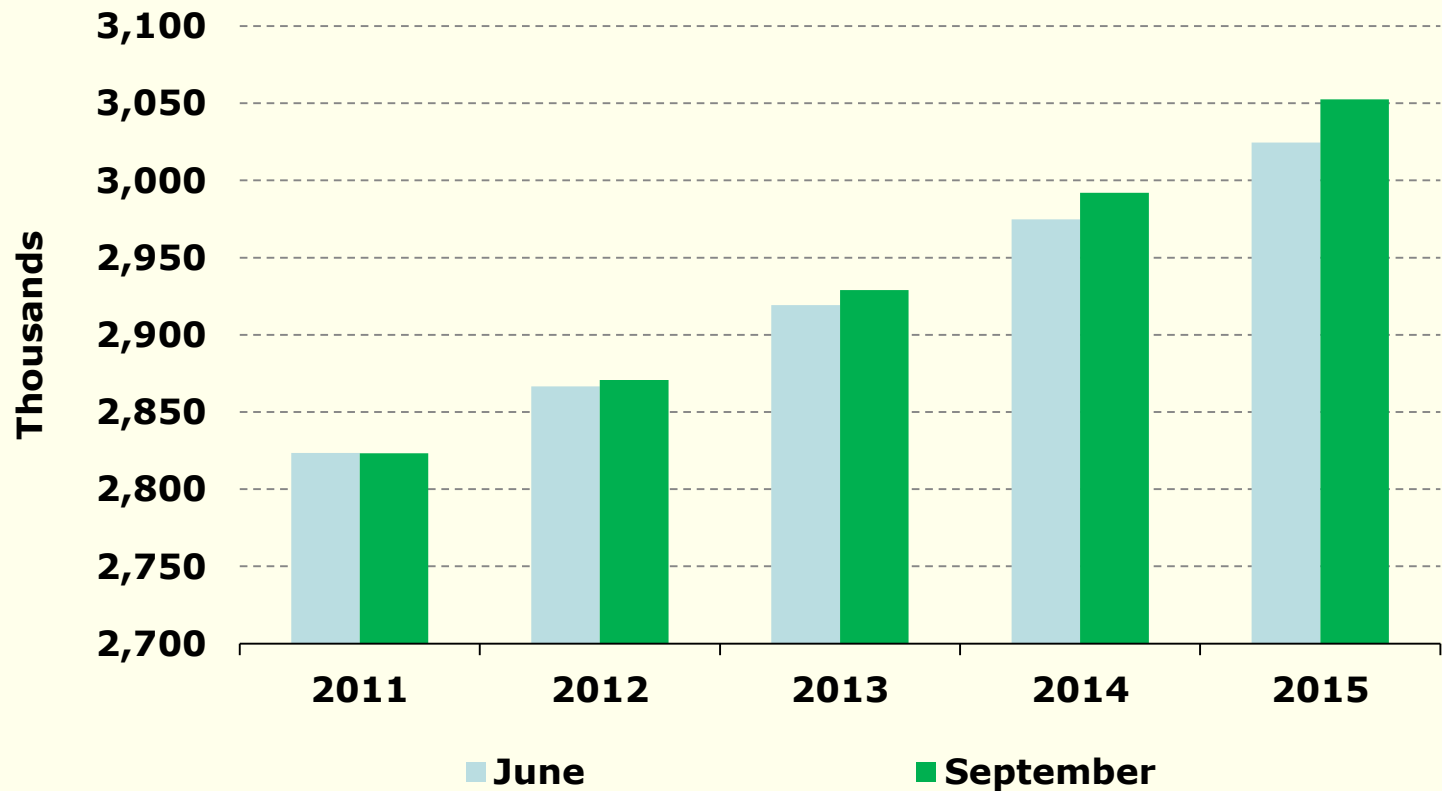
Source: BEA, ERFC September 2012 Forecast; historical data through 2011

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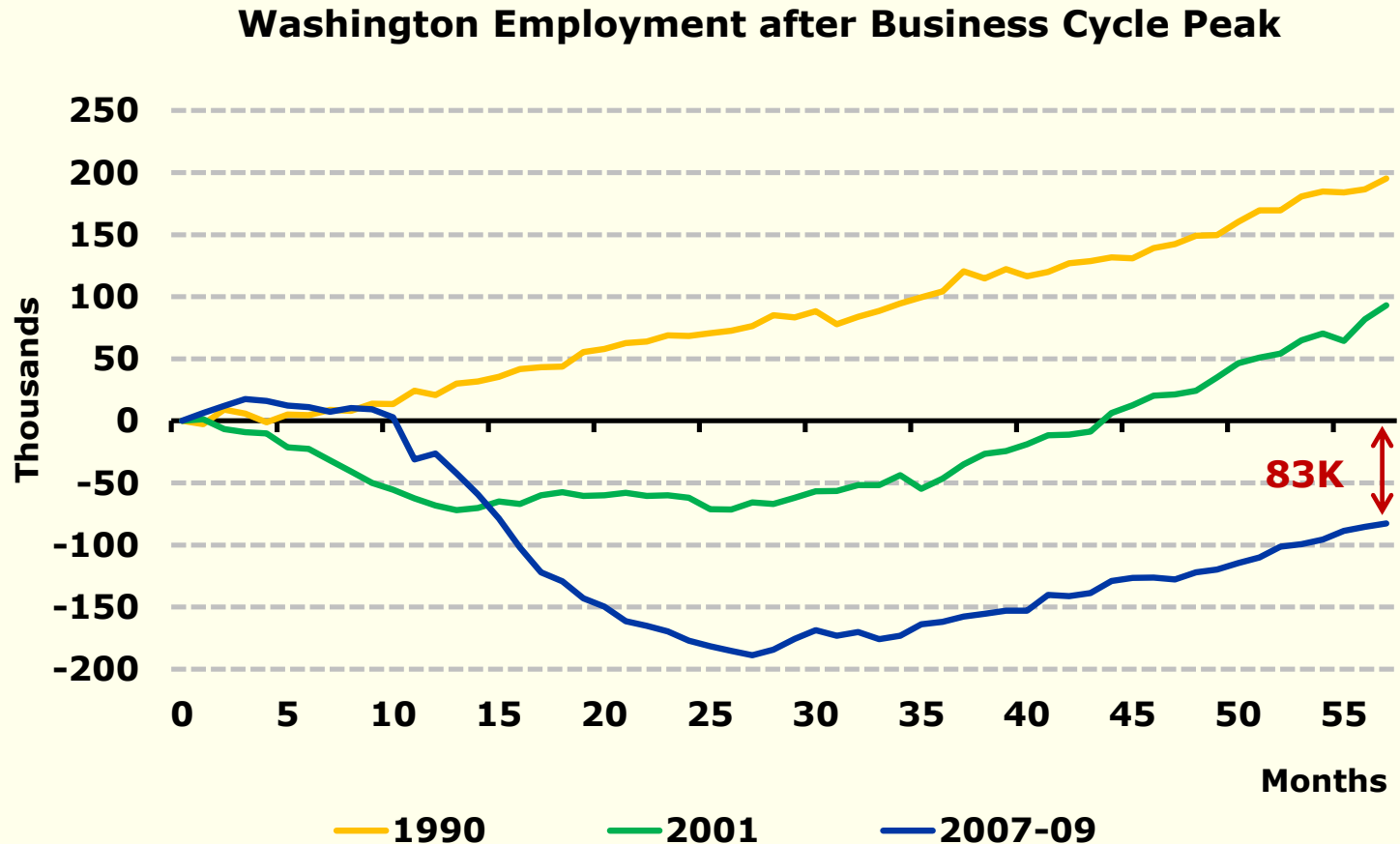
WA Employment Forecast Slightly Higher

Washington Nonfarm Payroll Employment



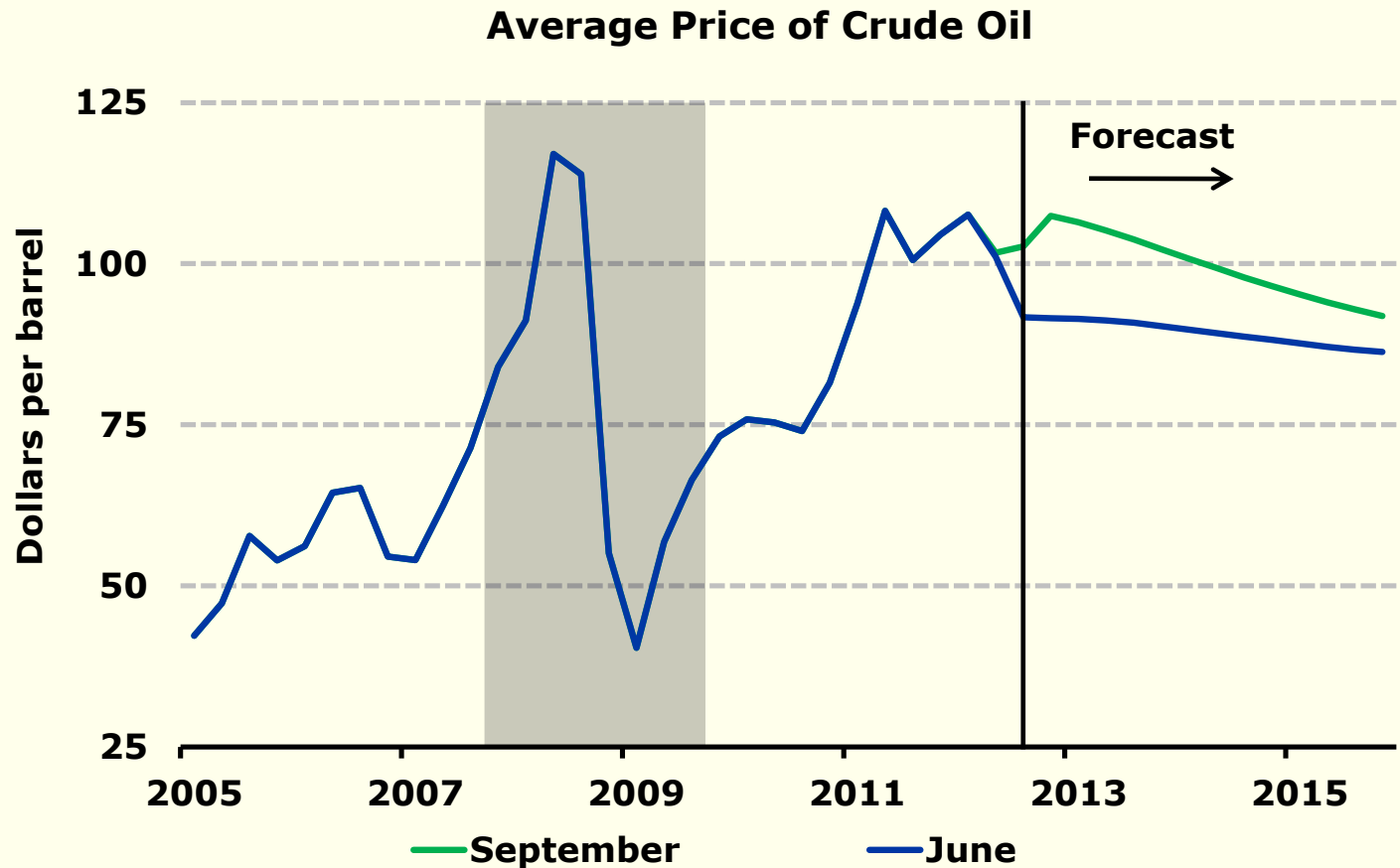


The decline in employment has been severe



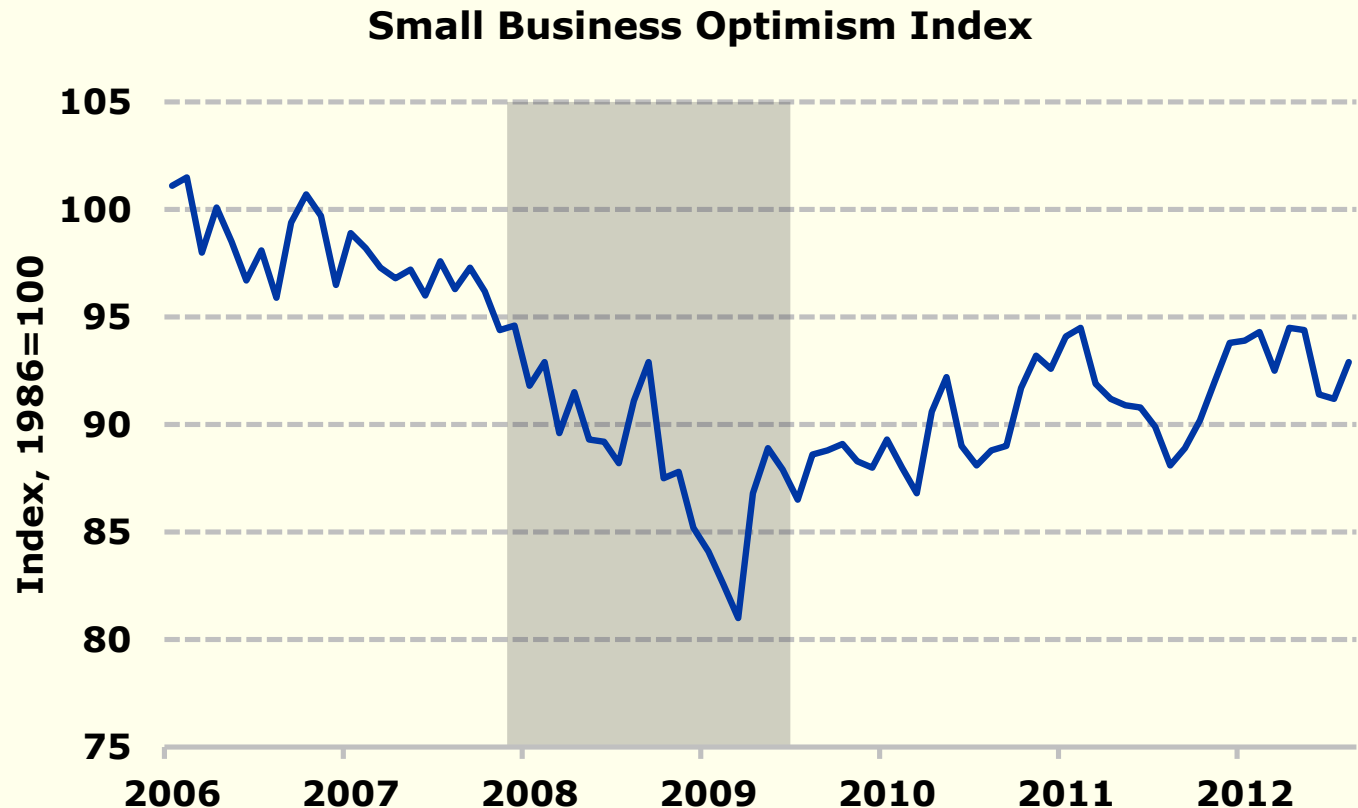


Oil prices are expected to decline





Small business optimism is slowly improving



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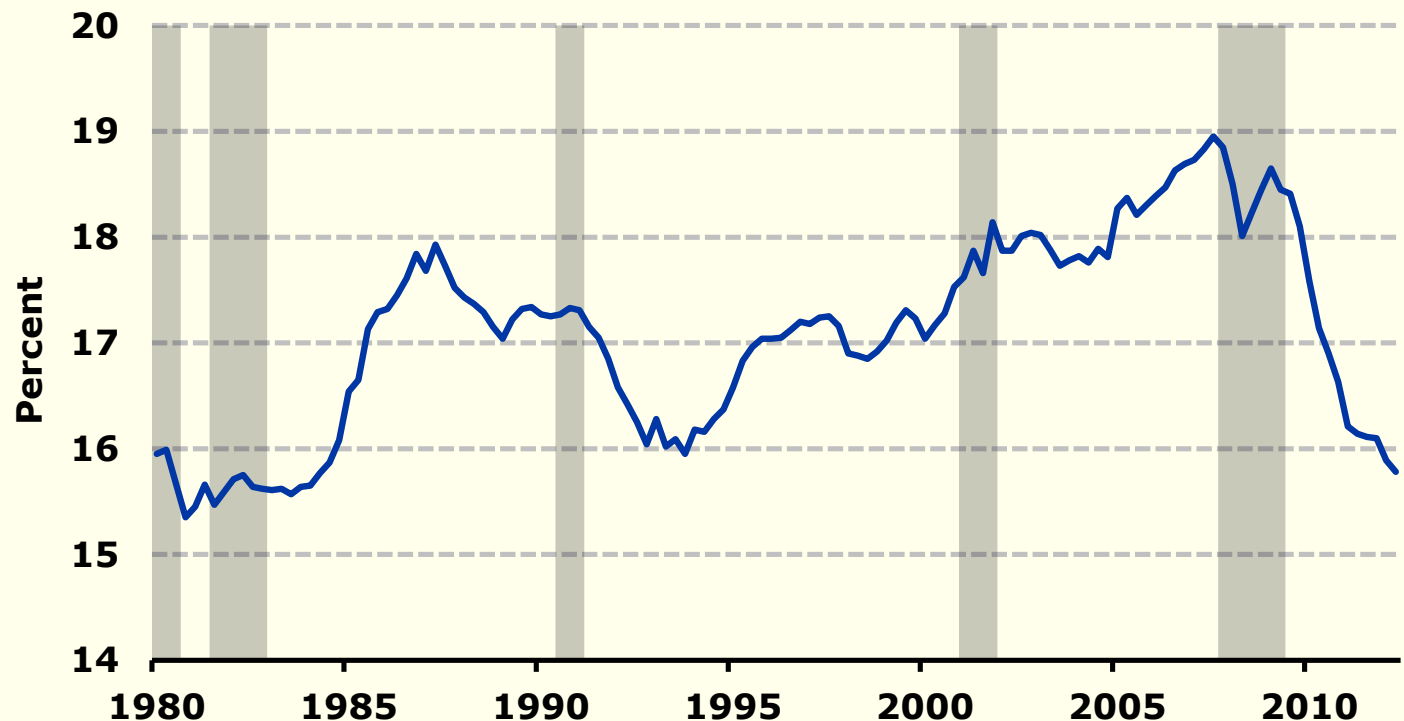
Source: National Federation of Independent Business; data through August 2012

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Consumers continue to deleverage

Total U.S. Household Debt Service and Financial Obligations as % of Disposable Personal Income

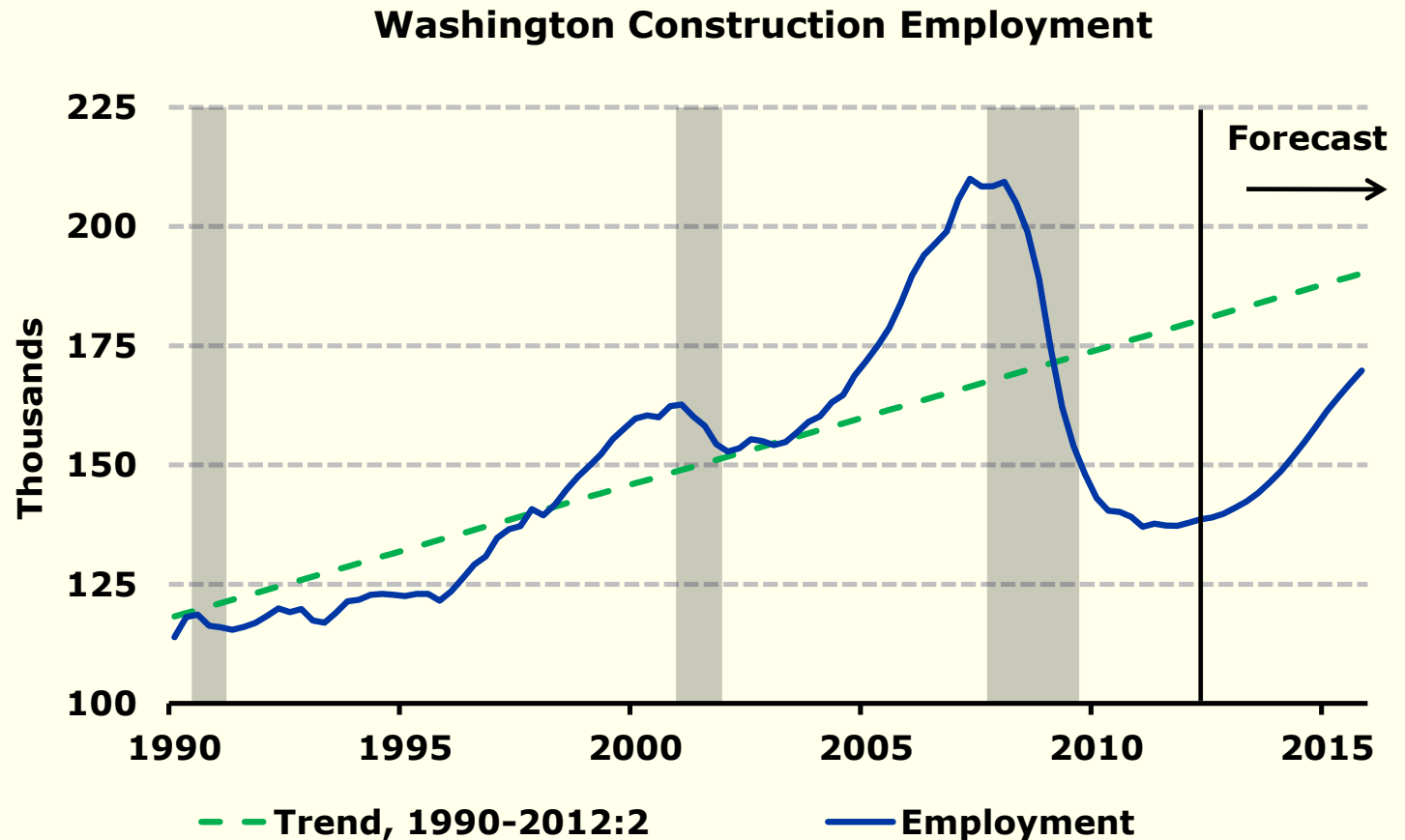


Source: Board of Governors of the Federal Reserve System, data through 2012Q2

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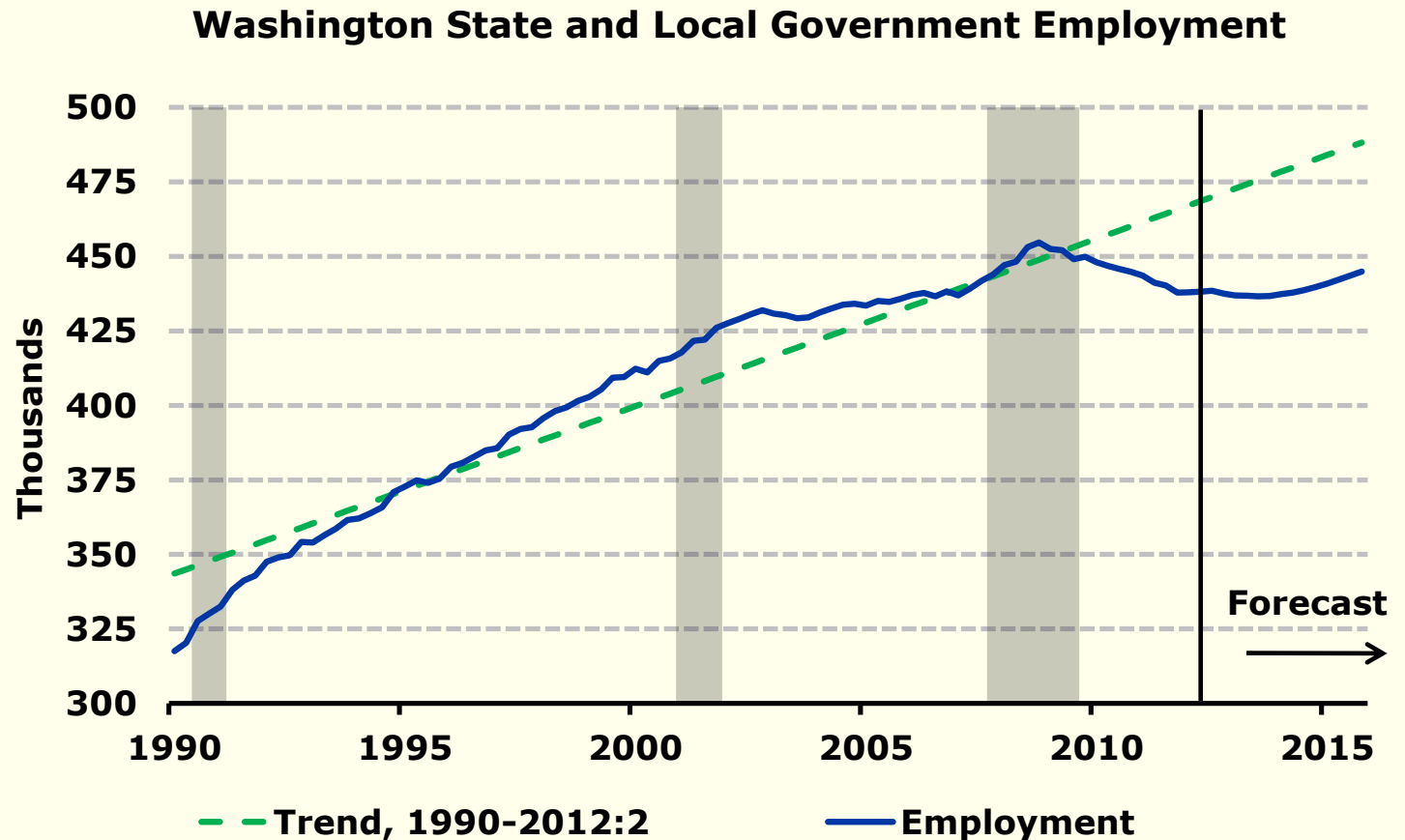


Washington construction employment will remain below trend throughout the forecast



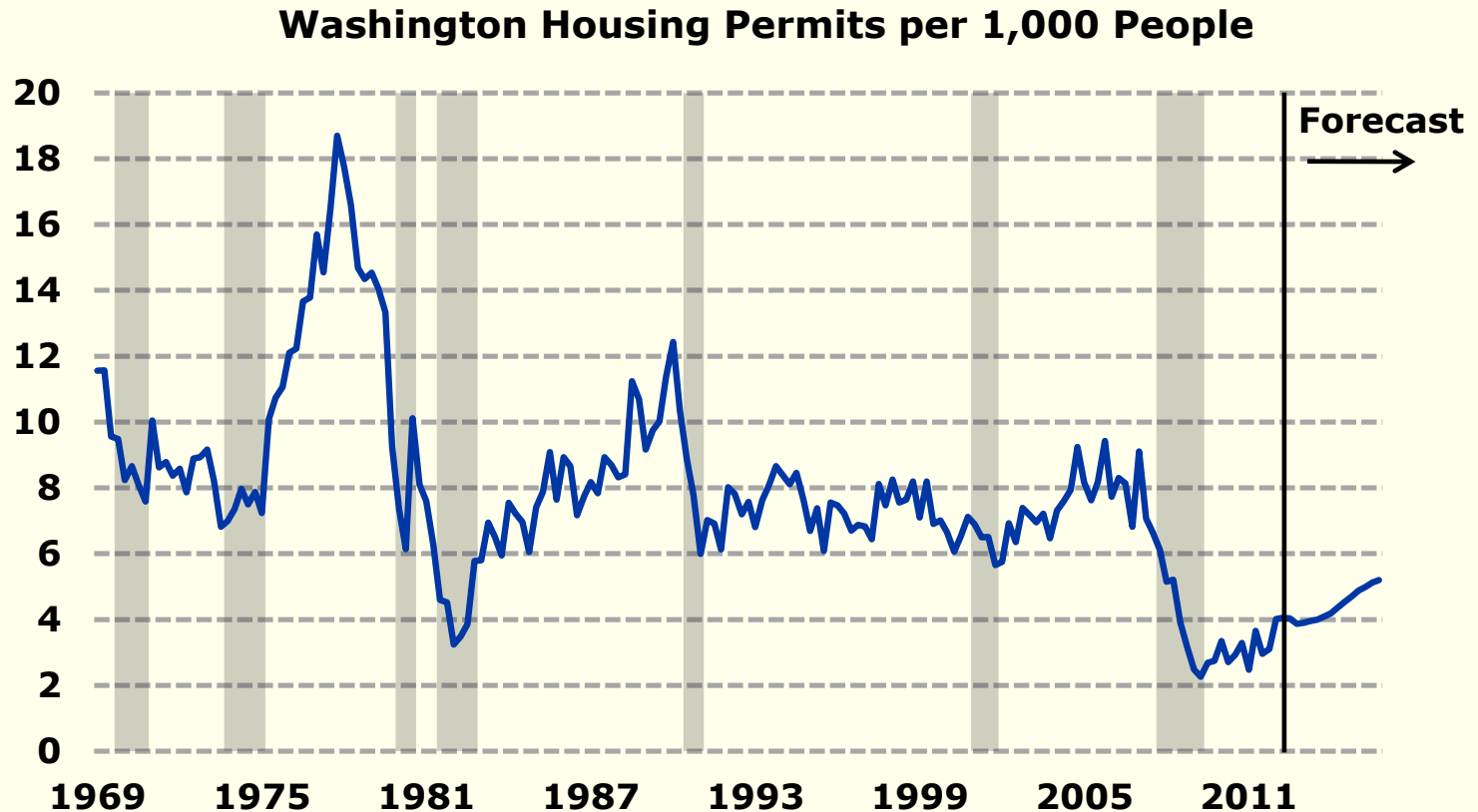


State and local government employment will remain weak





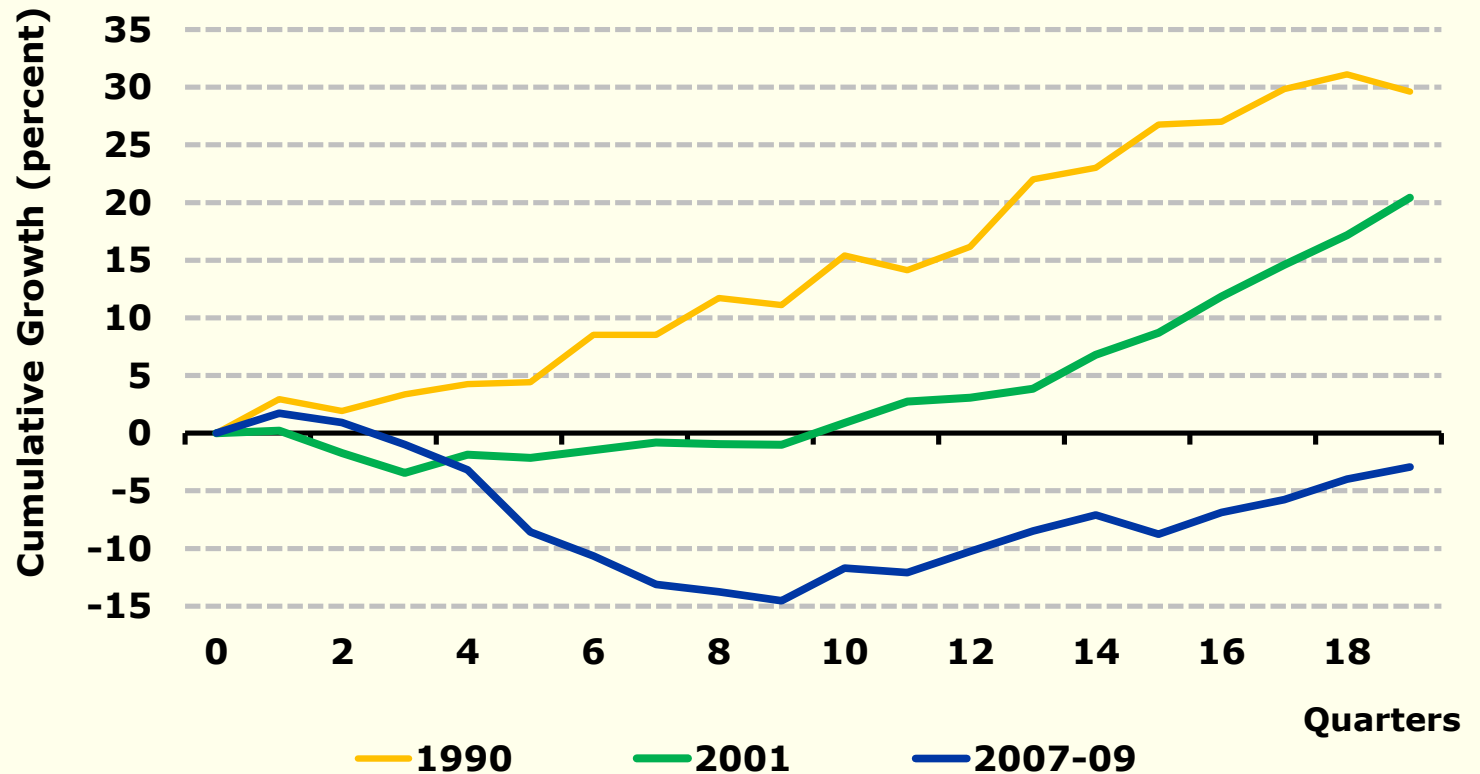
Housing permits relative to population will still be below historic levels in 2015





Revenue collections have been weak compared to past recoveries

Revenue Act Collections after Business Cycle Peak



Source: ERFC; data through 2012 Q2

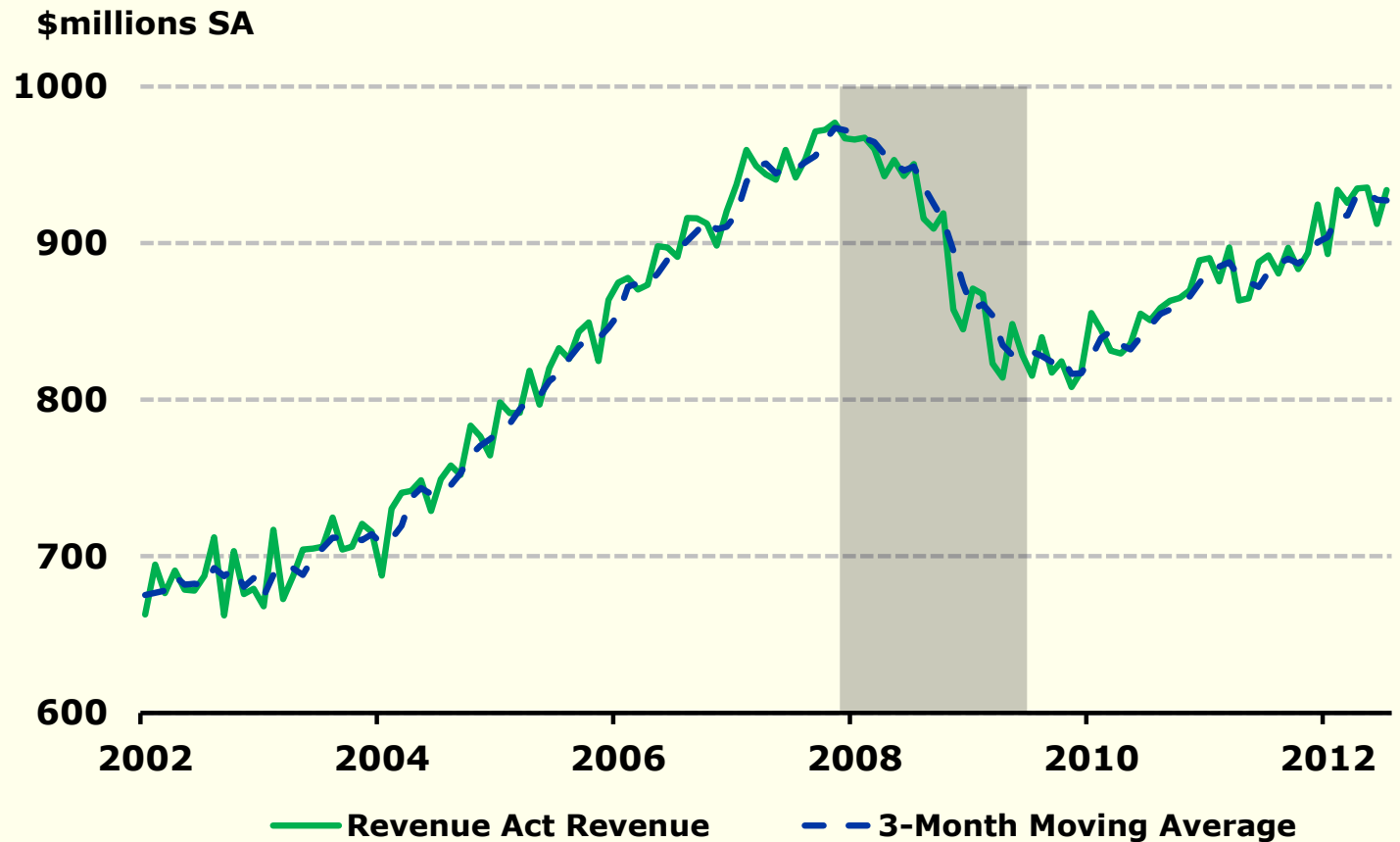
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Revenue Act collections are still on an upward trend

Collections were up 3.4% year-over-year in the August 11 - September 10, 2012 collection period.

Collections through September 10 were \$15 million (0.5%) lower than forecasted.



* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

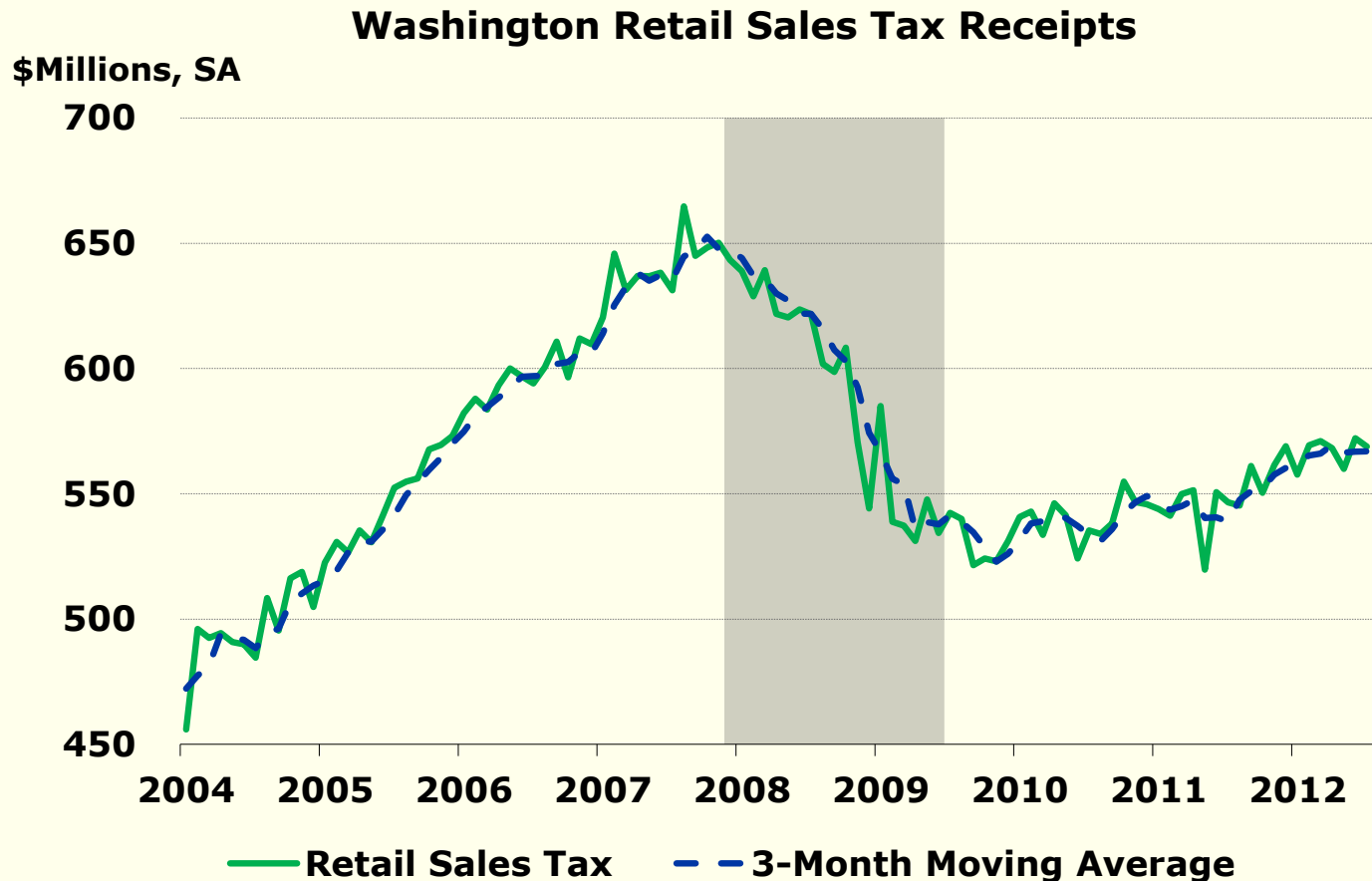
Source: DOR and ERFC; monthly data through estimated July 2012 activity

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WA sales tax growth still moderate

Preliminary seasonally adjusted sales tax receipts were up 4% year-over-year for July activity.



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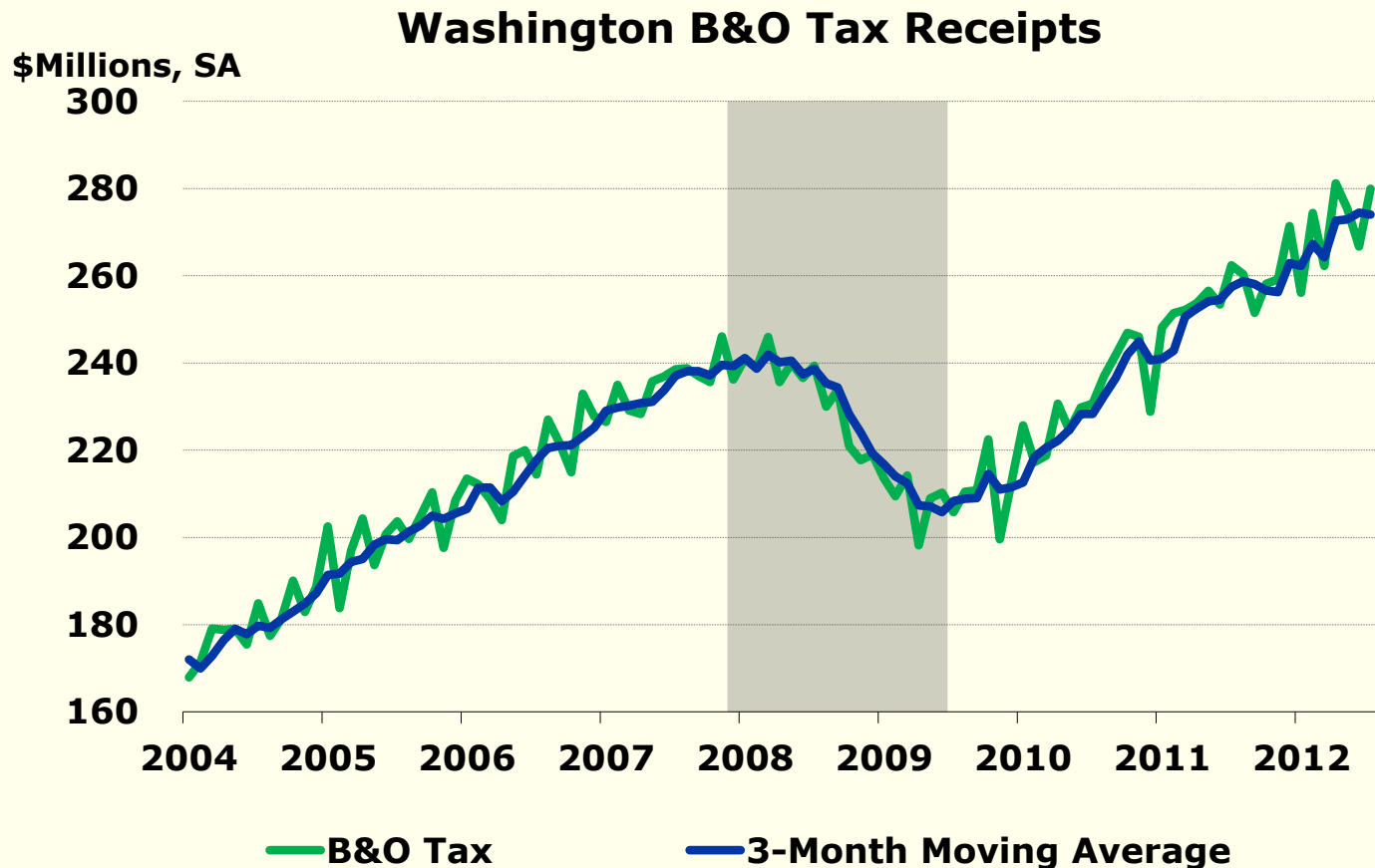
Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through July 2012 preliminary activity

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B&O tax growth has slowed from its prior pace

Preliminary seasonally adjusted business and occupation tax receipts were up 6% year-over-year for July activity.

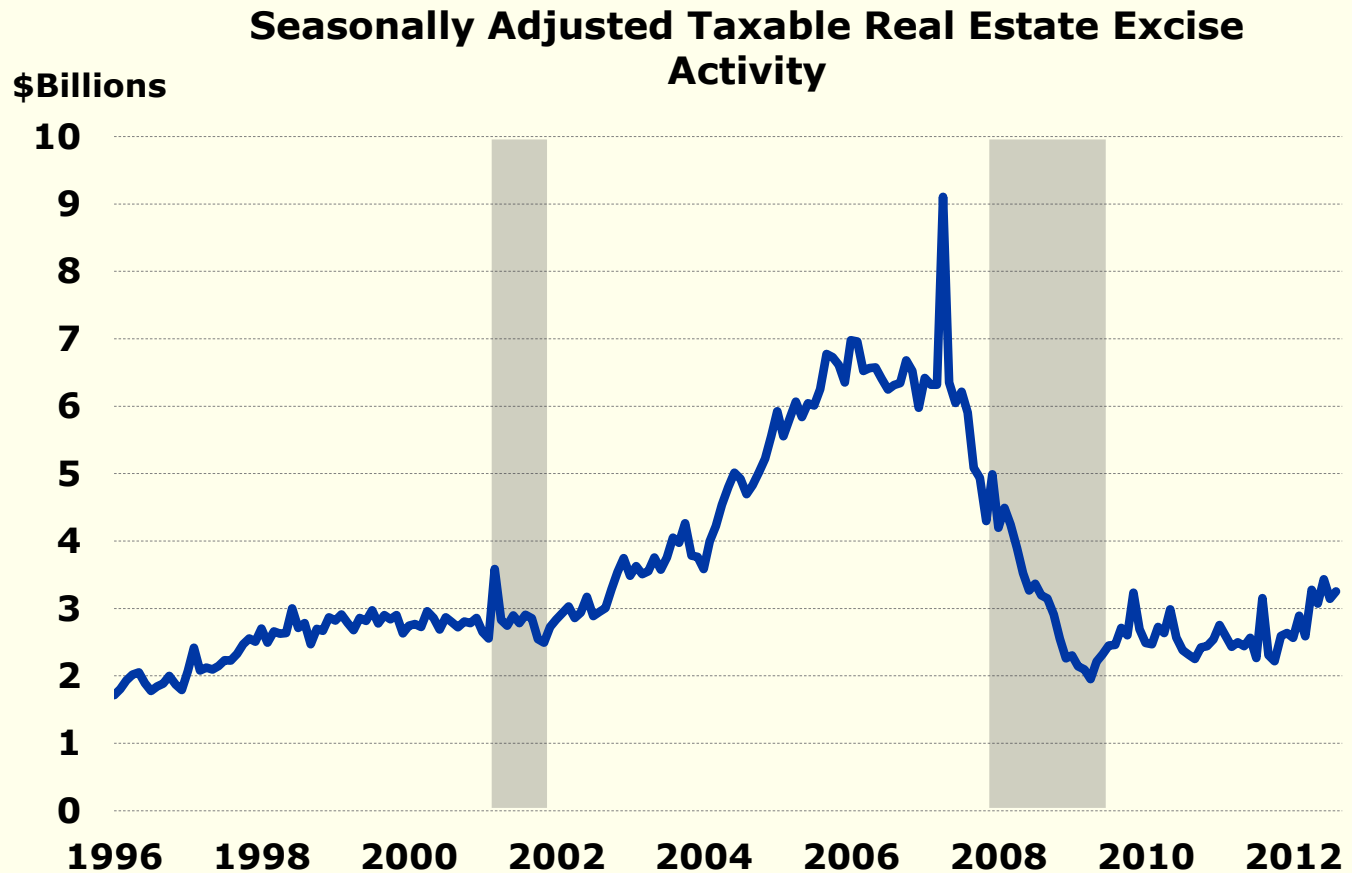


Source: ERFC; Monthly data through July 2012 preliminary activity
Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

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REET activity since April has been boosted by large commercial sales



Source: ERFC; Monthly data through August 2012 preliminary

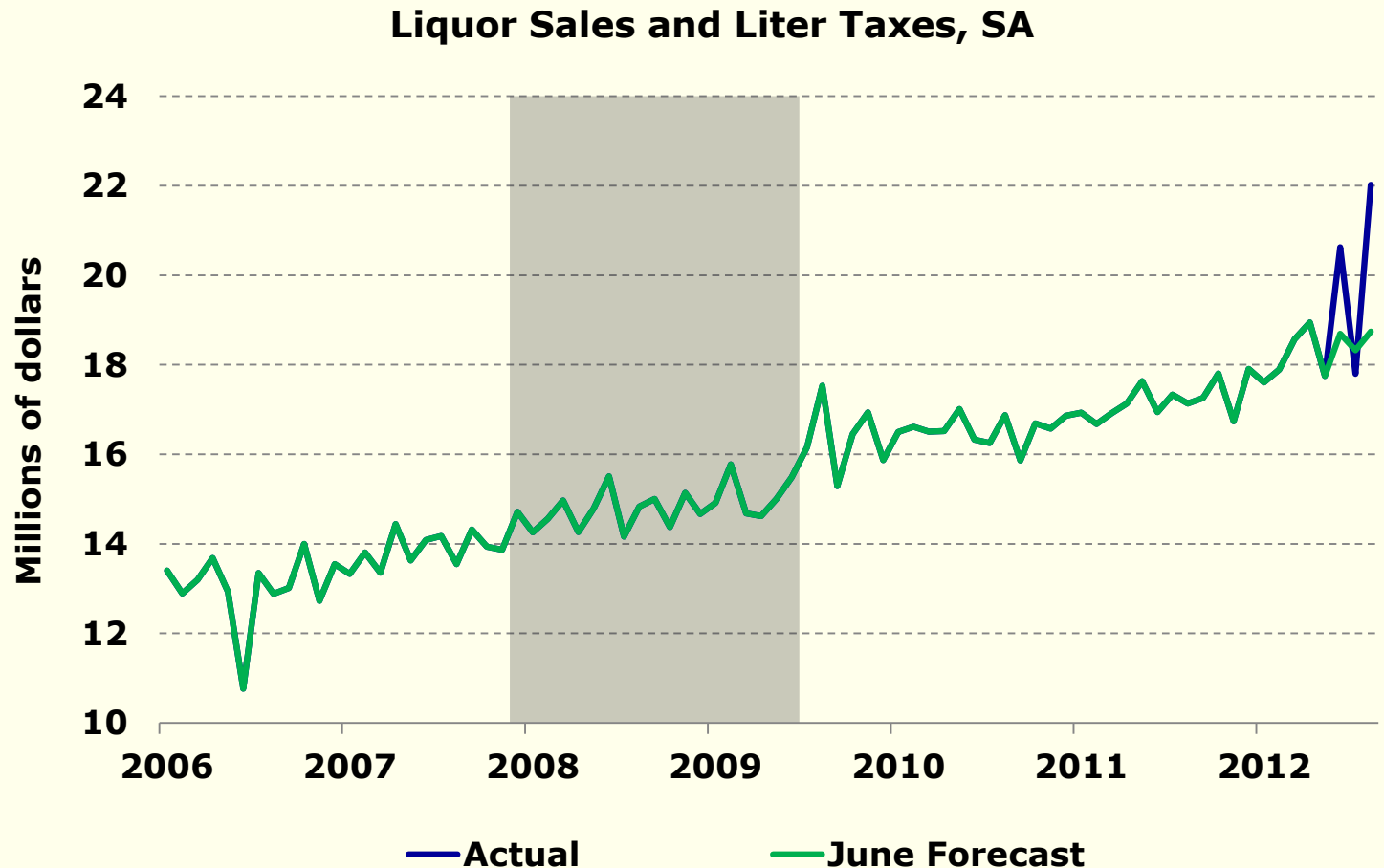
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Revenue for liquor sales has been volatile

Revenue was \$4.0 million (6.4%) above the June forecast

We have raised our forecast by \$10.9 million this biennium



Source: DOR, ERFC; data through August 2012

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Forecast changes: General Fund State, 2011-2013 Biennium

**June
Forecast:**

**\$30,440
million**

**USD
millions**

September Forecast

	<u>Collection Experience</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$20	\$24	\$28,824	\$44
All other agencies	\$1	(\$16)	\$1,646	(\$15)
Total GF-S	\$21	\$8	\$30,469	\$29

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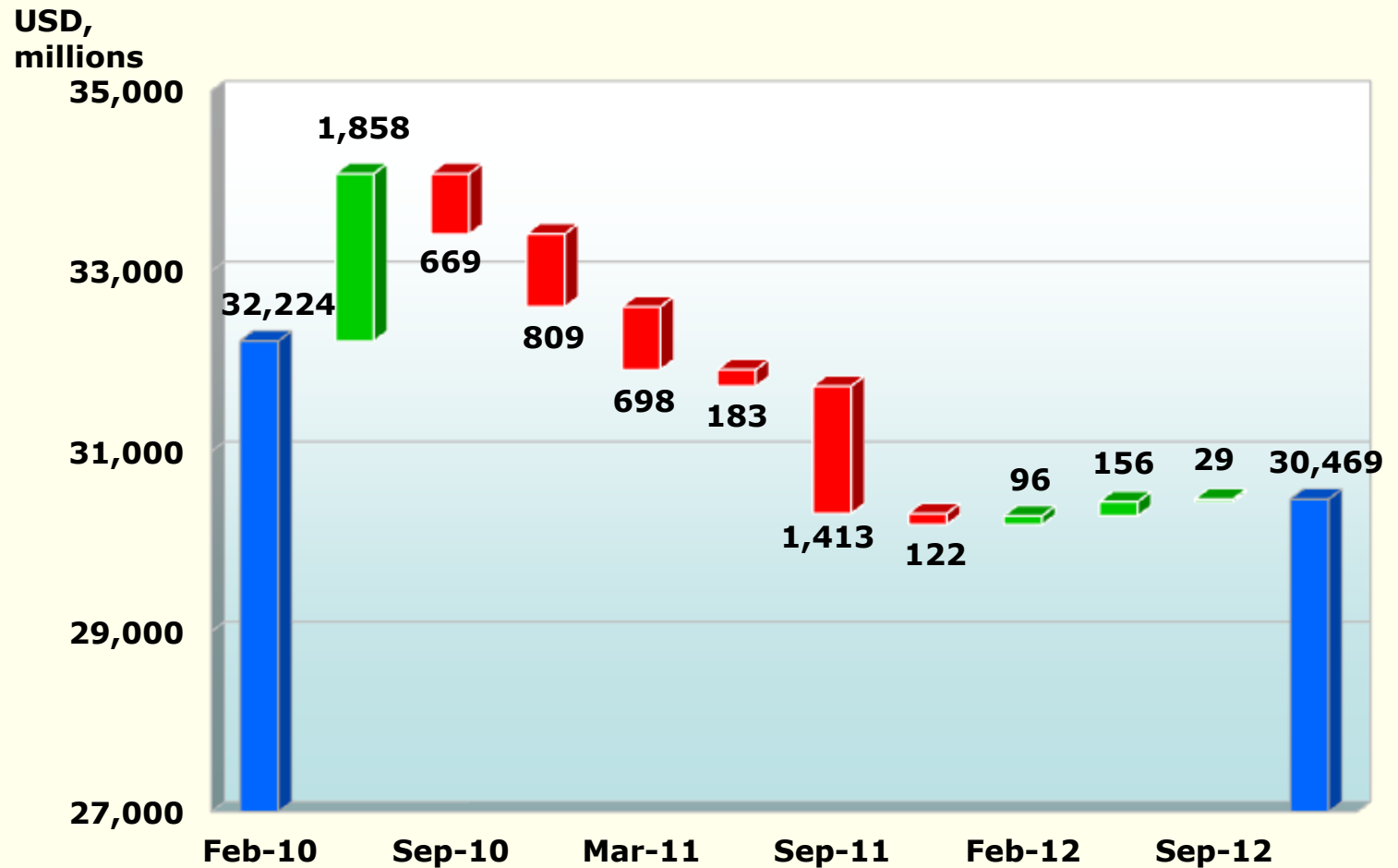
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* Detail may not add to total due to rounding



Forecast revisions to the 2011-13 biennium

GF-S
New
Definition



Source: ERFC September 2012 forecast

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Forecast changes: General Fund State, 2013-2015 Biennium

**June
Forecast:**

**\$32,626
million**

**USD
millions**

September Forecast

	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$39	\$31,114	\$39
All other agencies	\$0	(\$15)	\$1,535	(\$15)
Total GF-S	\$0	\$23	\$32,649	\$23

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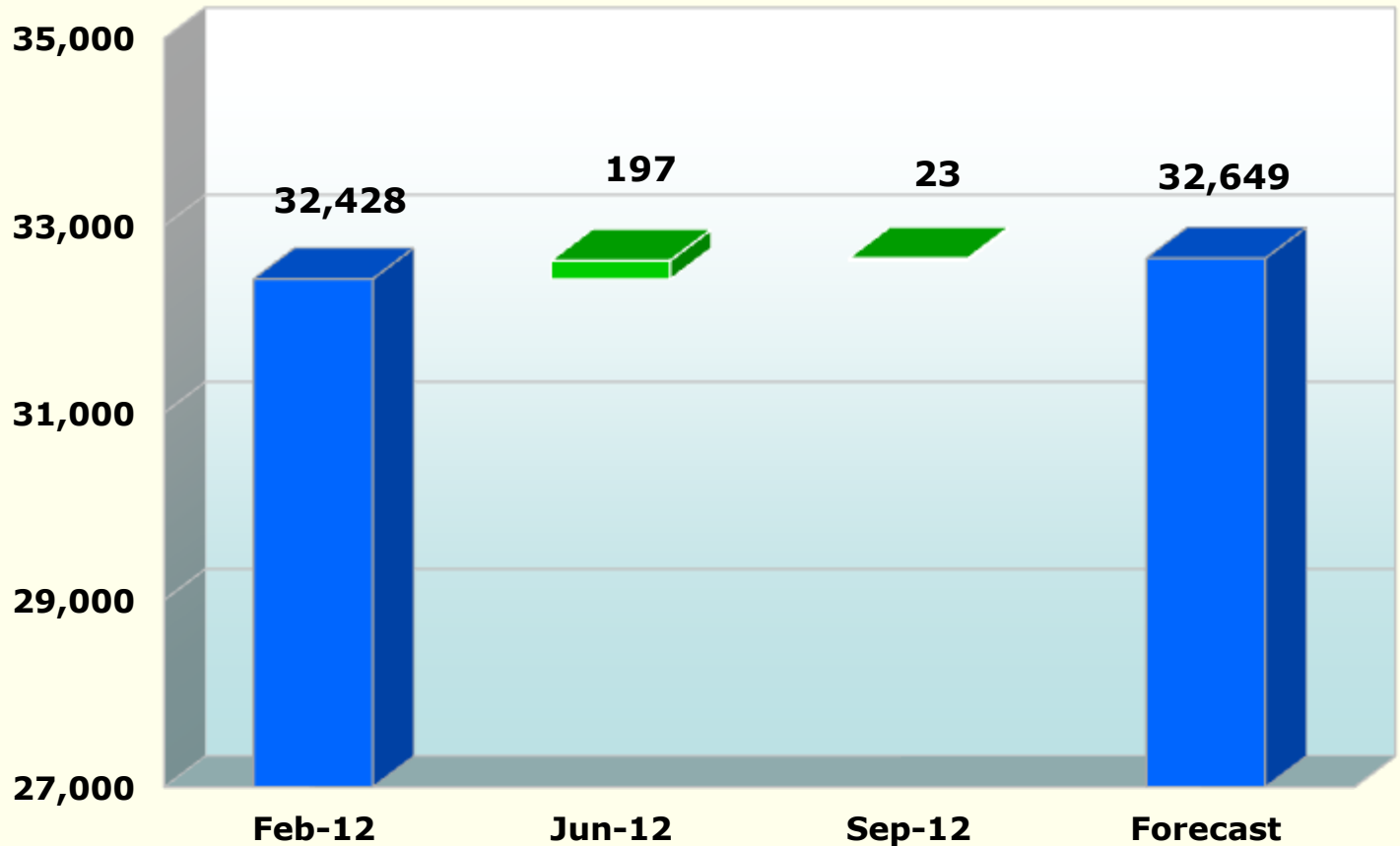
* Detail may not add to total due to rounding



Forecast revisions to the 2013-15 biennium

GF-S
New
Definition

**USD,
millions**



Source: ERFC September 2012 forecast

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Initial Forecast: General Fund State, 2015-2017 Biennium

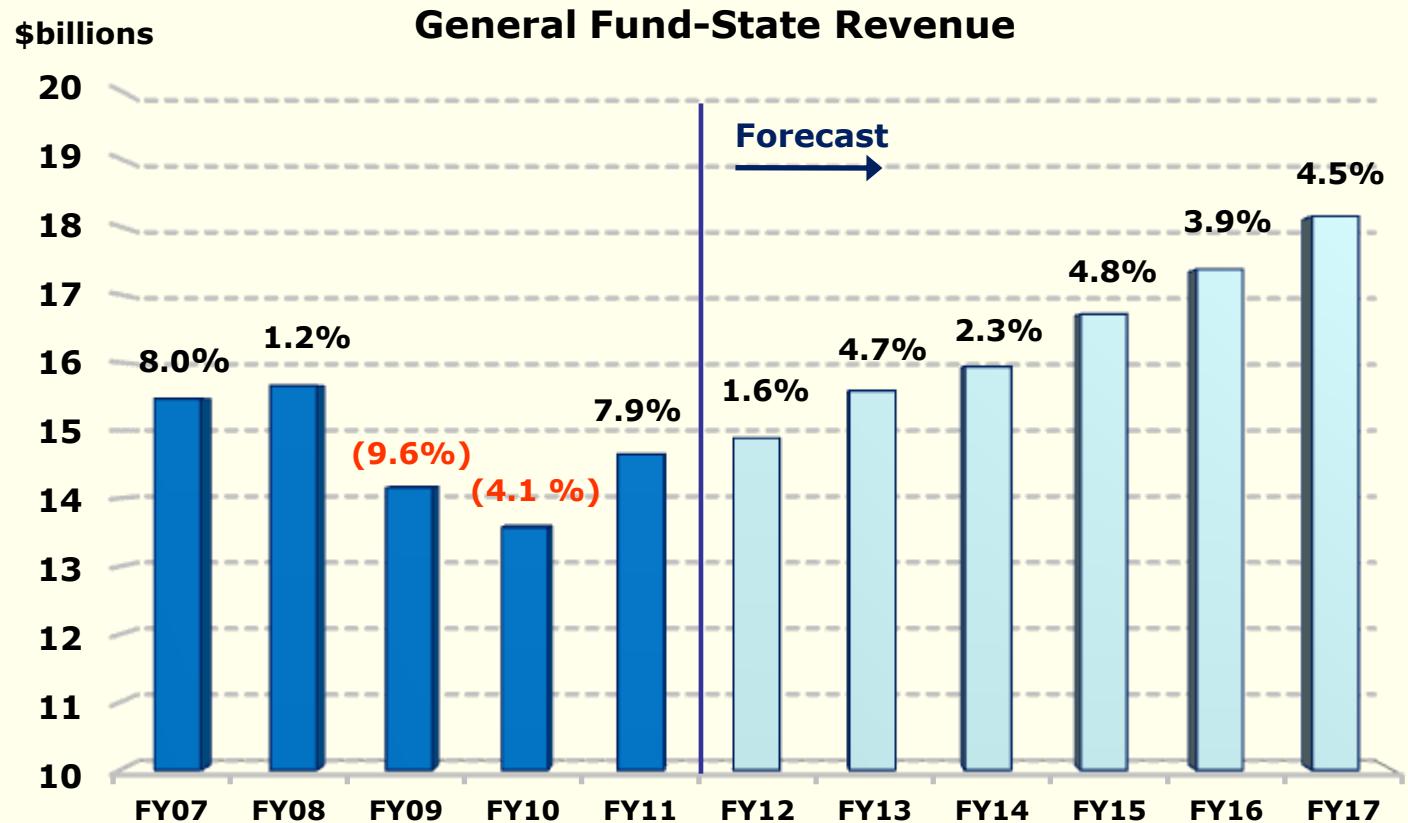
The 2015-17 biennial forecast is 8.8% higher than the 2013-15 forecast

	Forecast (\$millions)
Dept. of Revenue	\$34,102
All other agencies	\$1,416
Total GF-S	\$35,518



General Fund* forecast by fiscal year

FY 2011 revenues were boosted by the tax amnesty program and one-time transfers of non-GF-S funds into the GF-S



*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-13
Source: ERFC forecast, September 2012

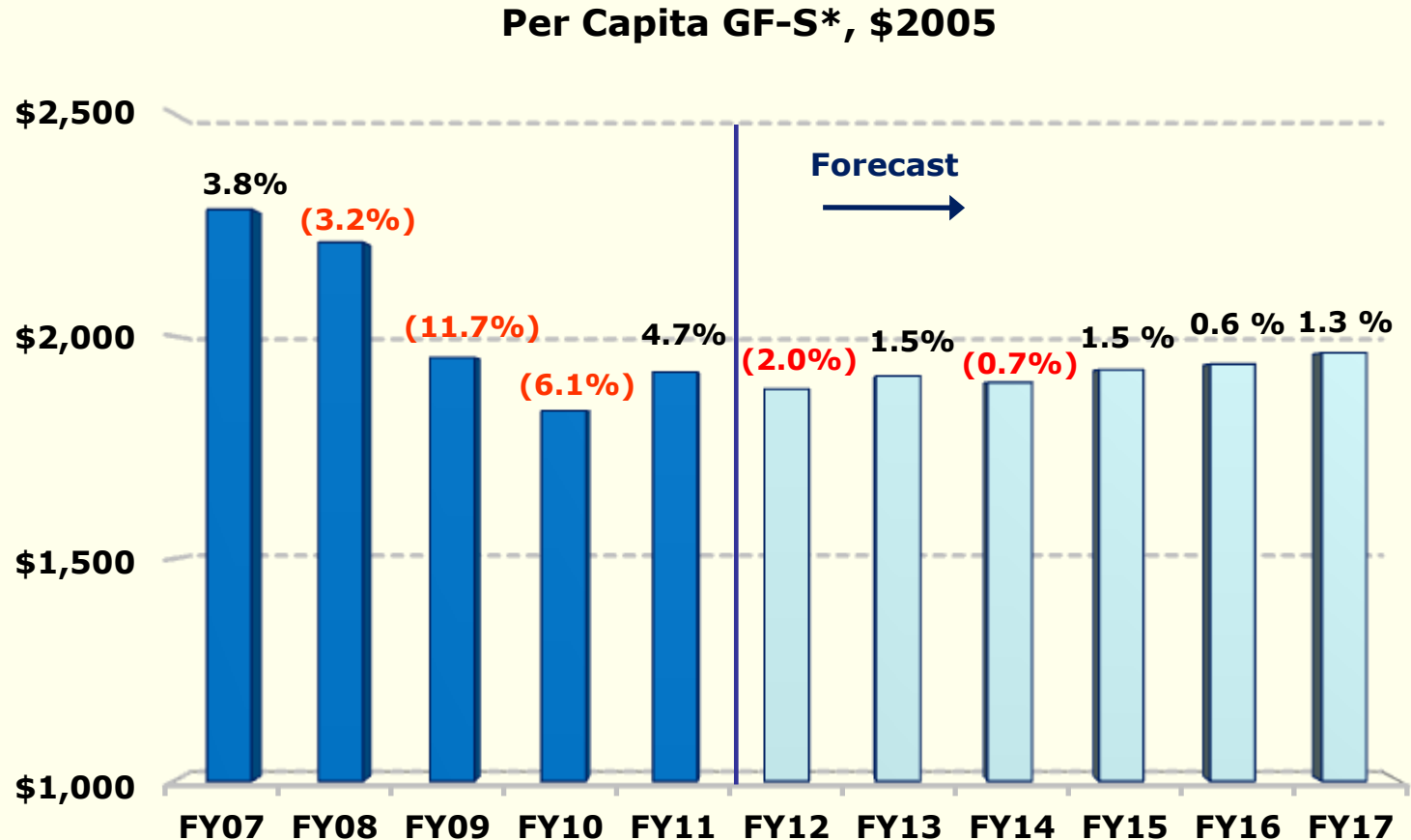
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Real Per Capita General Fund*-State Revenue

* General Fund & Related Funds for FY 2007-2009

General Fund – new definition, for FY 2010-2015



Source: ERFC forecast, September 2012

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2011-13 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	2011-13 Biennium	Difference From the baseline
September 2012 Baseline (50%)	\$30,469	
<u>September 2012 Alternative Forecasts</u>		
Optimistic (15%)	\$31,246	\$776
Pessimistic (35%)	\$29,752	(\$717)
Probability Weighted Average	\$30,335	(\$135)
GCEA*	\$30,472	\$3

*Based on the Governor's Council of Economic Advisors' assumptions



2013-15 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	2013-15 Biennium	Difference From the baseline
September 2012 Baseline (50%)	\$32,649	
<u>September 2012 Alternative Forecasts</u>		
Optimistic (15%)	\$35,830	\$3,181
Pessimistic (35%)	\$29,364	(\$3,285)
Probability Weighted Average	\$31,976	(\$673)
GCEA*	\$32,491	(\$158)

*Based on the Governor's Council of Economic Advisors' assumptions



Conclusion

- The forecast for the 2011-13 Biennium is \$29 million higher than in June
- The forecast for the 2013-15 Biennium is \$23 million higher than in June
- Revenues are expected to grow 8.0% between the 2009-11 and 2011-13 biennium and 7.2% between the 2011-13 and 2013-15 biennium
- As in June, an extended period of slow economic and job growth is expected for both the national and state economies
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



Questions



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